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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Issue 4, Volume 9

March 21, 2014

Canada

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National Overview

Slight Increase in Canadian Retail Gasoline Prices from Last Week

Canadian average retail gasoline prices increased slightly by 0.2 cent per litre from the previous week to $1.32 per litre for the week ending March 18, 2014. This represents a decrease of 0.5 cent per litre from the last report two weeks ago. Prices are 1 cent per litre higher than last year at this time.

Diesel fuel prices declined by 1 cent per litre to $1.44 per litre, up 12 cents from the same period last year. Furnace oil prices decreased by 2 cents per litre, ending at $1.32 per litre, an increase of 8 cents per litre from a year ago.

Recent Developments

- **Domestic Crude Oil Production**: Canadian production of crude oil and equivalent hydrocarbons increased by 3% in December 2013 compared to the same period the previous year to 18 million cubic meters. Exports increased by 9% to 14 million cubic meters. Imports decreased 8% to 3 million cubic meters. About 76% of Canada's total domestic production went to the export market compared to 73% a year earlier. (Statistics Canada, The Daily, http://www.statcan.gc.ca/daily-quotidien/140310/t140310b001-eng.htm)
- **Canadian Propane Market Review**: A joint preliminary report released on March 11, 2014, by the National Energy Board and the Competition Bureau provides a perspective on the factors that may have contributed to price increases and supply challenges this winter. The analysis will continue with a final report expected by April 30, 2014. (Source: Natural Resources Canada, http://www.nrcan.gc.ca/energy/alternative-fuels/fuel-facts/propane/15681)
- **Increase in Oil Demand Forecast in 2014**: According to the International Energy Agency, global oil demand will rise faster than expected as the world economic outlook improves, but warning that the crisis in Ukraine can still drag down overall consumption. The latest demand estimate of 92.7 million barrels per day is an increase of 95,000 barrels a day above last month's forecast, with emerging markets expected to provide most of the gain. (Source: Business Times, http://www.nst.com.my/business/latest/iea-raises-2014-oil-demand-forecast-1.512784)

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

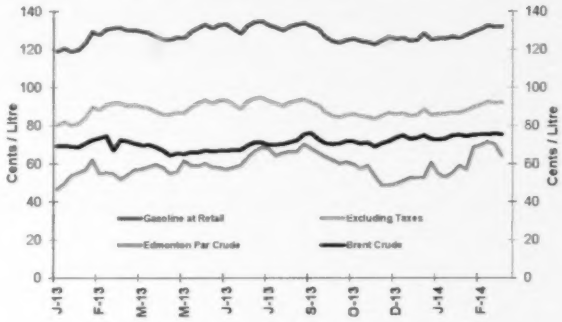
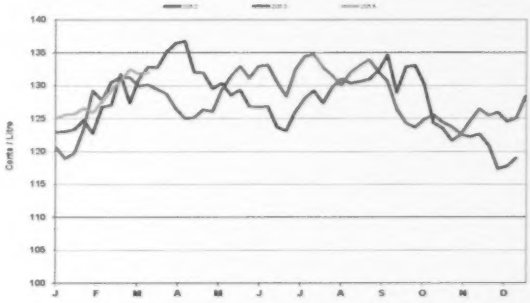


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2014-03-18	Previous Week	Last Year
Gasoline	132.0	+0.2	+0.9
Diesel	144.1	-1.3	+11.9
Furnace Oil	131.9	-1.9	+8.2

Source: NRCan

Natural Gas Prices for Vehicles

2014-03-18	¢/kilogram	¢/L gasoline equivalent	¢/L diesel equivalent
Vancouver	114.6	75.6	78.4
Edmonton	115.1	75.9	78.7
Toronto	110.6	73.0	75.6

Source: ¢/kg Kent Marketing Services Limited

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Retail Gasoline Overview

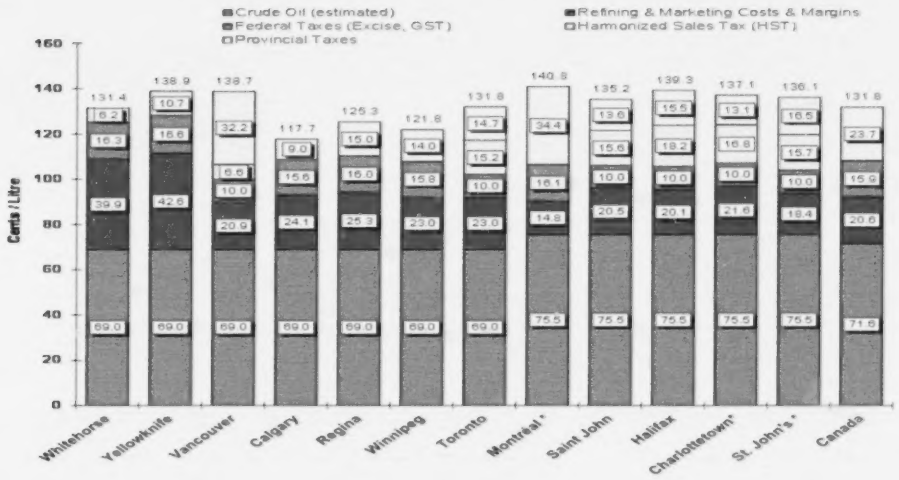
For the period ending March 18, 2014, the **four-week average** regular gasoline pump price in selected cities across Canada was $1.32 per litre, an increase of 2 cents per litre compared to the previous report of March 7, 2014. Compared to the same period in 2013, the average Canadian pump price is 1 cent per litre higher.

The **four-week average** crude component increased by 1.5 cent per litre to 72 cents per litre compared to two weeks ago.

Retail gasoline prices in most Western centres increased by 4 cents per litre compared to the previous report and ranged from $1.18 per litre to $1.39 per litre. Prices in Eastern cities increased by 1 cent per litre and ranged from $1.32 per litre to $1.41 per litre.

At the national level, refining and marketing costs and margins registered an increase of 0.1 cent per litre to 21 cents per litre compared to the last report two weeks ago.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (February 25 to March 18, 2014)



Source: NRCan

** Regulated Markets*

Short-Term Energy Outlook – Fuel Prices

Total U.S. liquid fuels consumption rose by an estimated 400,000 bbl/d (2.1%) in 2013. Consumption of hydrocarbon gas liquids registered the largest gain, increasing by 150,000 bbl/d (6.4%). Motor gasoline consumption grew by 90,000 bbl/d (1.1%), the largest increase since 2006. Stronger-than-expected growth in highway travel during the second half of 2013 contributed to that increase. Distillate fuel consumption increased by 90,000 bbl/d (2.5%), reflecting colder weather and domestic economic growth.

Projected total liquid fuels consumption remains flat in 2014. Motor gasoline consumption remains largely unchanged as the recent strong growth in highway travel slows and continued improvements in new-vehicle fuel economy boost overall fuel efficiency growth. Distillate fuel oil consumption rises 10,000 bbl/d (0.3%). In 2015, total liquid fuels consumption increases by 100,000 bbl/d (0.5%), driven primarily by increasing transportation demand for distillate fuel oil and industrial demand for hydrocarbon gas liquids.

Led by falling crude oil prices, the projected U.S. annual average regular gasoline retail price, which fell from $3.63/gallon (gal) in 2012 to an average of $3.51/gal in 2013, will continue to fall to $3.45/gal in 2014 and $3.37/gal in 2015. Diesel fuel prices, which averaged $3.92/gal in 2013, are projected to average $3.85/gal in 2014 and $3.78/gal in 2015.

Source: Excerpts from the Short Term Energy Outlook, U.S. Energy Information Administration, http://www.eia.gov/forecasts/steo/pdf/steo_full.pdf

Wholesale Gasoline Prices

For the **week ending March 13, 2014**, wholesale gasoline prices increased in most Canadian and American centres compared to the previous week.

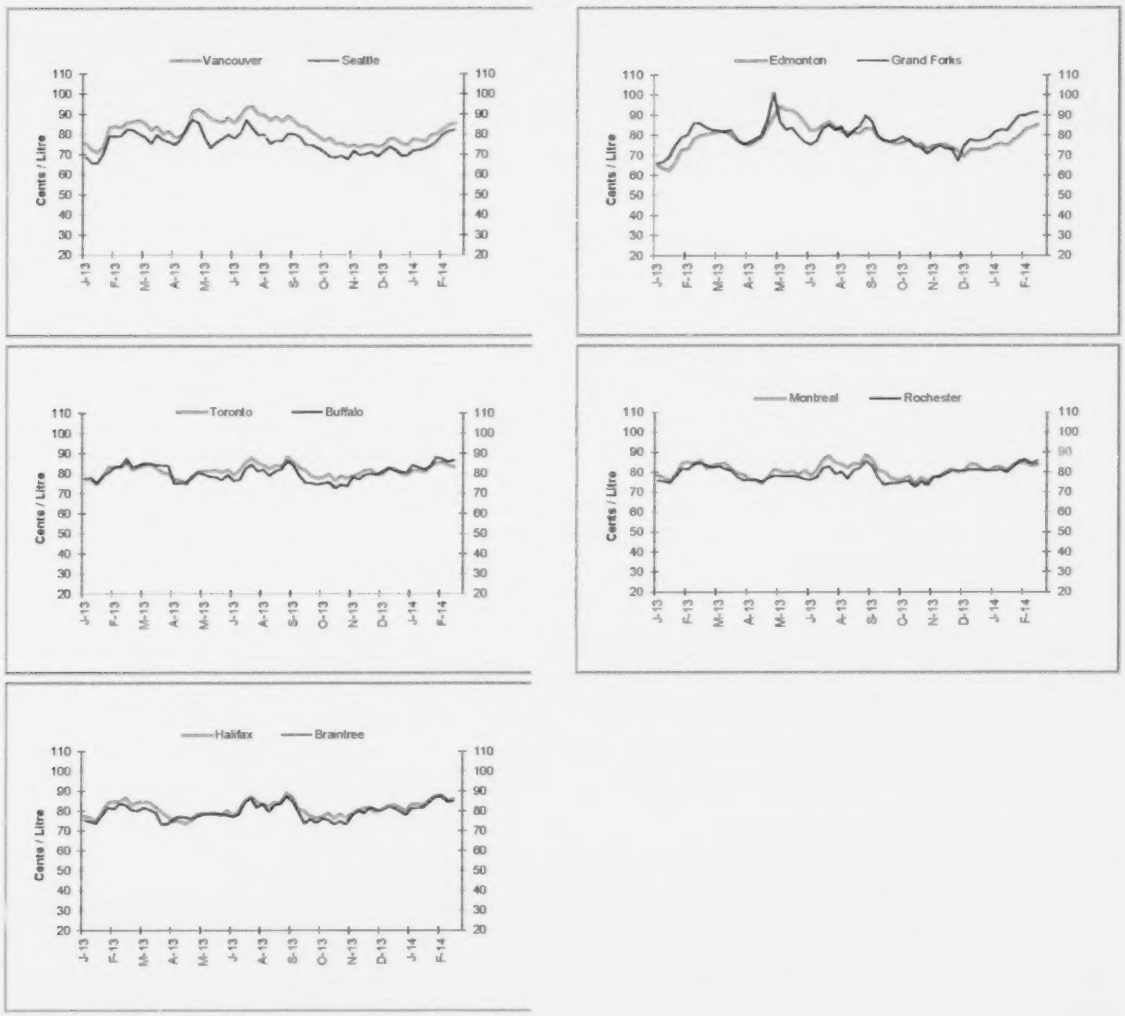
Wholesale gasoline price changes ranged from an increase of more than 1 cent per litre to a decrease of less than 1 cent per litre. Prices for the period ended in the 82 to 91 cent-per-litre range.

In the eastern markets of Canada and the U.S., wholesale gasoline price changes, compared to the previous week, ranged from a decrease of less than 1 cent per litre to an increase of 1 cent per litre. Prices for the period ended in the 84 to 87 cent-per-litre range.

Wholesale gasoline prices in western centres registered increases of 1 cent per litre and ended in the 82 to 91 cent-per-litre range.

In the **last four weeks**, wholesale price changes in most selected Canadian and American centres ranged from a decrease of less than 1 cent per litre to an increase of 8 cents per litre.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending March 13, 2014
(CAN ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

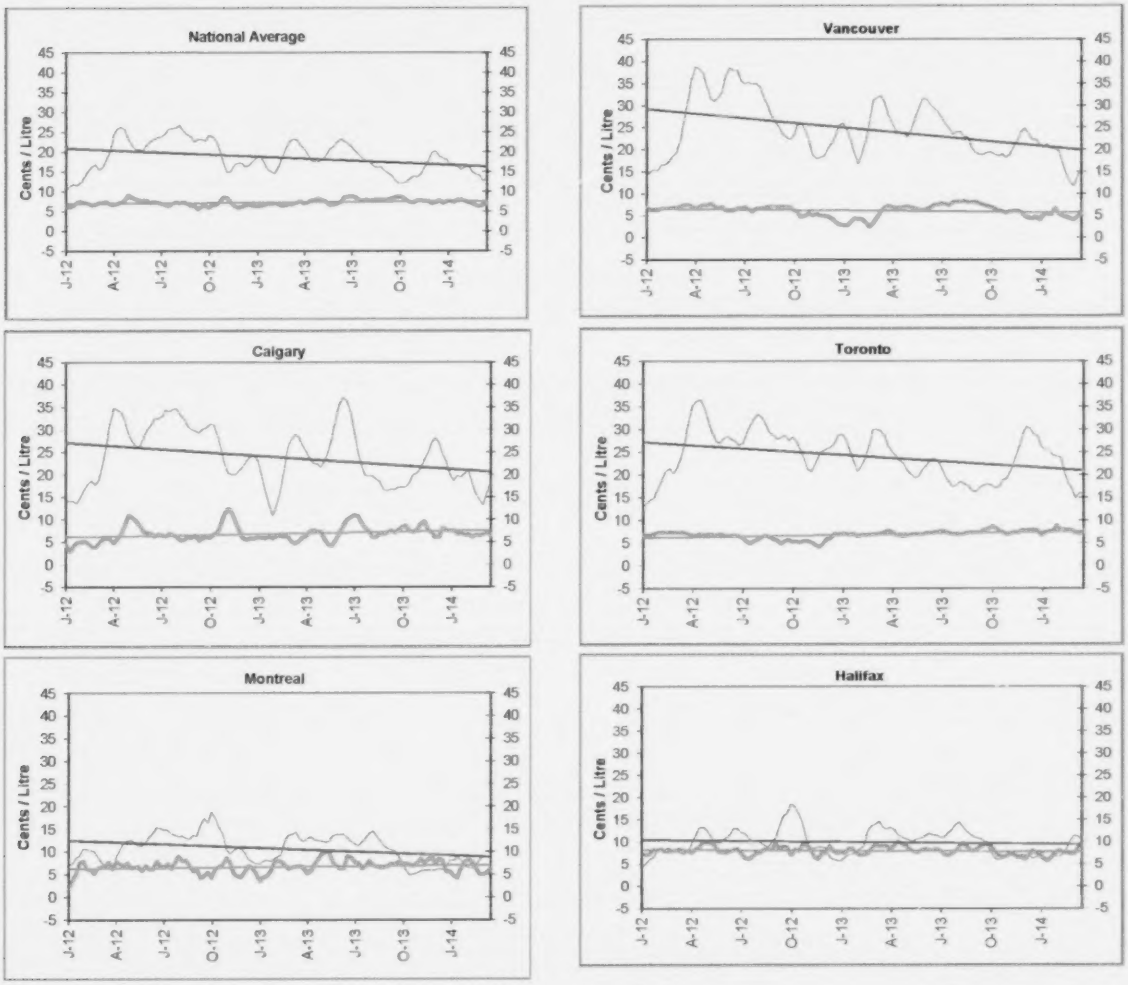
Gasoline Refining and Marketing Margins

Four-week rolling averages are used for gasoline refining and marketing margins.

The refining margins downward slope observed since December 2013 reflects the adequate gasoline supply in North America's distribution system. With the arrival of summer, these margins tend to be volatile mainly due to seasonal fluctuations such as higher demand for gasoline during the summer driving season or events that constrain supplies such as weather-related incidents. Other types of constraints such as scheduled or unscheduled refinery shutdowns can also impact this margin.

Nationally, marketing margins continue to hover around an average of x cents per litre. However, as outlets compete for market share, marketing margins can be volatile—as shown in the individual centres.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending March 18, 2014
------- Refining Margin ——— Marketing Margin



Source: NRCan

Crude Oil Overview

Global Crude Oil Prices Move Downward

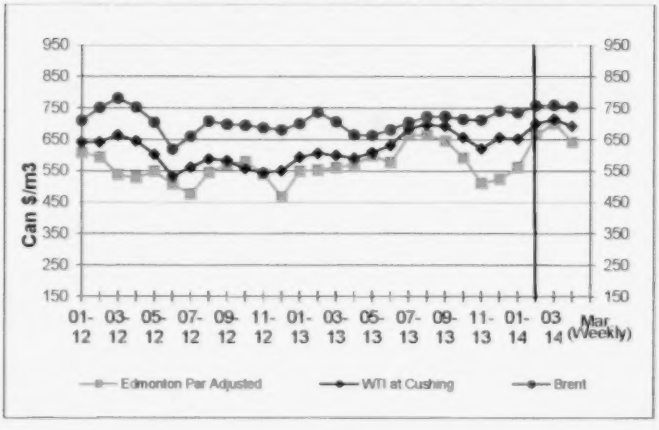
For the week ending March 14, 2014, prices for the three marker crudes averaged between $643/m^3$ and $753/m^3$ (US$92 and US$108 per barrel).

Compared to the previous week, all three crude oil price benchmarks fell in the range of $5/m^3$ and $60/m^3$ (US$1 and US$9 per barrel). Edmonton Par prices dropped the most by $60/m^3$ (US$9 per barrel) while WTI and Brent declined by $23/m^3$ and $5/m^3$ (US$4 and US$1 per barrel), respectively.

Compared to this time last year, prices for all three marker crudes are up in the range of $48/m^3$ to $95/m^3$ (US$2 to US$7 per barrel). Canadian crude oil prices remain significantly cheaper than imported global crudes. Currently, Edmonton Par is $111/m^3$ (US$16 per barrel) less than Brent.

U.S. crude oil inventories remain high and in the upper range of their five-year average, putting downward pressure on oil prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2014-03-14		Change From:			
			Previous Week		Last Year	
	$Can/$ m^3	$US/ bbl	$Can/$ m^3	$US/ bbl	$Can/$ m^3	$US/ bbl
Edmonton Par	642.84	92.13	-60.00	-8.89	+74.93	+4.04
WTI	692.50	99.25	-22.61	-3.52	+94.69	+6.52
Brent	753.93	108.05	-5.04	-1.02	+47.55	-1.52

Source: NRCan

U.S. Oil Imports in 2013

According to the U.S. Energy Information Administration (EIA), Canada's crude oil share of imports to the U.S. rose by 160 thousand barrels per day in 2013 compared to the previous year.

The crude oil share of the other top four importing countries to the U.S. declined in the range of 37 to 152 thousand barrels per day.

U.S. Imports - Crude Oil and Products
(in thousands of barrels per day)

	2012	%	2013	%
Canada	2,955	27.9	3,130	32.0
Saudi Arabia	1,360	12.8	1,330	13.6
Mexico	1,031	9.7	919	9.4
Venezuela	952	9.0	796	8.1
Iraq	475	4.5	342	3.5
All Imports	10,596	100.0	9,790	100.0

U.S. Imports - Crude Oil

	2012	%	2013	%
Canada	2,408	28.4	2,570	33.3
Saudi Arabia	1,357	16.0	1,320	17.1
Mexico	972	11.4	851	11.0
Venezuela	906	10.7	754	9.7
Iraq	475	5.6	342	4.4
All Imports	8,492	100.0	7,710	100.0

Source: U.S. Energy Information Administration